

**Media Release**

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**SEC engages with Approved Auditors**

The Securities and Exchange Commission of Sri Lanka (SEC) as part of its continuous engagement process with stakeholders in the capital market landscape, held a meeting with the managing partners and audit partners of audit firms on its list of Approved Auditors recently. The main purpose of this session was to discuss the SEC’s expectations on the role of the auditors and some recent concerns that had arisen.

SEC Chairman, Faizal Salieh, SEC Commission Member, Manil Jayesinghe, SEC Commission Member and President of CA Sri Lanka, Heshana Kuruppu, SEC Director General, Chinthaka Mendis, SEC Director Corporate Affairs, Manuri Weerasinghe, Sri Lanka Accounting and Auditing Standards Monitoring Board (SLAASMB) Director General, Anusha Mohotti, and other officials of the SEC and SLAASMB as well as the representatives from SEC’s Approved List of Auditors participated at the meeting.

The SEC Chairman apprised the audience on SEC’s proactive regulatory approach in regulating Listed Entities and emphasized the importance of audit quality and the duties and obligations of the auditors towards public interest. The SEC officials also presented some case examples that had transpired during the SEC’s regular review process. The meeting also discussed the administrative sanctions applicable to directors of Listed Entities for certain non-compliances in order to strengthen market discipline.

The importance of collaboration between external and internal auditors was discussed and the SEC Chairman requested the external auditors to consider appropriate mechanisms to effectively improve the coordination between the external and internal audit processes to achieve greater level of efficiency. The ultimate objective is to integrate the internal audit plan and focus areas with the external audit plan and focus, for better effectiveness in the final audit outcomes. The audit firm representatives stated that the independence, technical competencies and effectiveness of the internal audit process need to be assured in order to have a positive impact on the internal control environment and financial statements. Importance of determining a consistent internal audit scope across the board was highlighted and it was agreed that there should be effective coordination among the Institute of Internal Auditors (IIA), the SEC and CA Sri Lanka on this.

SEC and SLAASMB officials underscored the importance of involving the Board Audit Committee Chairs of Listed Entities in the dialogue. It was noted that the Board Audit Committees should be educated to evaluate the work carried out by the internal audit. The SEC Chairman stated that the SEC would spearhead educating the Board Audit Committees together with SLAASMB, IIA and CA Sri Lanka.

The audit firms expressed the challenges they face in expanding their scope in response to the evolving regulatory environment. The SEC officials took note of the concerns raised and stated that the requirement of the SEC is that whenever the auditors identify any contraventions in the ordinary course of their duties, they shall promptly notify the company’s Board Audit Committee, Board of Directors, and the SEC as appropriate.

The auditors also expressed their concerns about several issues observed in the market such as Listed Entities compromising on the audit quality by opting for lower audit fees, the lack of a competency criteria for appointing directors to Listed Entities and highlighted the importance of making the cost of non-compliance higher than the cost of compliance. The SEC apprised the audience on the initiatives taken to address the concerns. It was stated that the SEC introduced the Approved List of Auditors to ensure that market standards and stature is maintained; and that the SEC has currently given the ownership to company Boards to determine and disclose the competency criteria for appointment of directors.

In his concluding remarks, the SEC Chairman, Mr. Salieh, requested the auditors to be mindful in balancing client relationship considerations with the public interest responsibilities.

Currently there are 13 audit firms which are listed as Approved Auditors by the SEC.

**Issued by**

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